



Director of
Central
Intelligence

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Contents**Warsaw Pact-NATO: New Proposal on MBFR** 1**USSR-Eastern Europe: Summit Planned** 2**Mexico: Reduced Military Purchases** 4**USSR: New Party Boss for Leningrad** 5**Czechoslovakia: Antigovernment Protest** 5**Lebanon: Actions Against Palestinians** 6**Philippines-US: Purchase of Helicopters** 7**Special Analyses****International: Outlook for Oil Prices** 8**Top Secret**

25X1

25X1

23 June 1983

Top Secret

25X1

WARSAW PACT-NATO: New Proposal on MBFR

The East plans to offer a new draft MBFR treaty today calling for force reductions over a three-year period to 900,000 men on each side. [redacted]

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The proposal includes a number of verification measures to monitor residual force levels, including on-site inspection—but with right of refusal. Three to four checkpoints would be established where observers would monitor movement of forces into and out of the area after reductions. The proposal makes no provision for agreement on existing manpower levels or on the reductions necessary to reach parity—the “data” issue on which the West insists there has to be agreement. [redacted]

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Comment: The treaty formalizes the third element of the Eastern “package” offered in February, which also proposed initial US-Soviet reductions “by example,” and a subsequent freeze on East-West forces. The East evidently hopes that its forthcoming position on verification will persuade the West to ease its demands that any accord has to be based on prior agreement on manpower data. It also will publicize the proposal to strengthen its image as an advocate of arms control during the period before INF deployments. [redacted]

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The East’s proposal will prompt further consideration in some Western capitals of forgoing a prior agreement on force-level data in exchange for adequate verification measures. West European delegations are anxious for progress toward an MBFR agreement, partly to help win public support for INF deployments. [redacted]

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23 June 1983

Top Secret
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USSR-EASTERN EUROPE: Summit Planned

[redacted] a summit of Soviet and East
European leaders will be held in Moscow from 28 to 30 June. [redacted]

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Polish and Yugoslav diplomats in East Berlin say the meeting will be the long-postponed CEMA Summit. The CEMA Executive Committee reportedly is to meet in Moscow today to complete preparations. Some Yugoslav press sources claim, however, that the meeting next week is to be a gathering of Soviet and East European party leaders to deal with security issues. [redacted]

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Comment: If the CEMA Summit does take place next week, urgent considerations presumably have overridden Moscow's longstanding insistence that it be scheduled only if the CEMA members agree on an agenda. There is no evidence available to suggest that the members are any closer to agreement on a number of contentious economic issues than they were in late April. At that time, a CEMA working group advised that the Summit not be held before this fall. [redacted]

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The fact that the Summit is to be held just before West German Chancellor Kohl's arrival in Moscow on 4 July suggests that it is intended instead to address security issues. The Soviets and their allies may issue a statement on arms questions in response to the one made last month at Williamsburg. Such a statement almost certainly would affirm a consensus by members of the Warsaw Pact on the need to take countermeasures in response to NATO INF deployments. [redacted]

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Top Secret

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MEXICO: Reduced Military Purchases

Defense officials are keeping up international contacts in anticipation of improvement in the economy, but budget constraints are cutting military imports to a fraction of past levels.

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Comment: Despite economic realities, both the armed forces and foreign firms presumably are taking advantage of the government's growing concern about regional and domestic security to push their favorite projects. Nevertheless, Mexico probably will not make any sizable new military purchases until the economy picks up, which will take at least several years. The only deals likely to go through in the near future are those for spare parts, armament, and internal security-related items.

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USSR: New Party Boss for Leningrad

Lev Zaykov, the 60-year-old "mayor" of Leningrad and veteran manager of defense industrial enterprises, was named on Tuesday to replace Leningrad party boss Romanov. Last week Romanov was promoted to the Central Committee Secretariat. Politburo member Gorbachev—a supporter of President Andropov—and Romanov presided over the party meeting that approved Zaykov's appointment. [redacted]

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Comment: Zaykov—who has no known ties to Andropov—may not have been Romanov's choice, because Romanov ignored previous opportunities to promote him. His selection follows the recent appointment of three other officials associated with Defense Minister Ustinov to full membership on the Central Committee. Zaykov's new position puts him in line for eventual Politburo membership. The fact that Gorbachev joined Romanov in presiding over Zaykov's installation could be interpreted by some members of the elite as an undercutting of Romanov's prestige. [redacted]

[redacted]

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CZECHOSLOVAKIA: Antigovernment Protest

The apparently spontaneous protest by about 300 Czechoslovak youths in Prague is an acute embarrassment for the authorities, who went to considerable effort to make a favorable impression on the more than 2,000 foreign participants at the current World Assembly for Peace and Life Against Nuclear War. The youths, chanting calls for freedom, disrupted an official rally opening the five-day conference and later marched on the city's main square. The riot police, who made several arrests while breaking up the demonstration, were jeered by onlookers. The protest was the largest antigovernment disturbance since the demonstrations in 1969 that marked the first anniversary of the Soviet invasion. [redacted]

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Comment: The insecure and deeply divided leadership may be further polarized by this show of public disaffection at a time of serious economic decline. Hardliners may seize on the incident to argue for a tightening of political controls and a slowing of the regime's already cautious movement toward economic reform. [redacted]

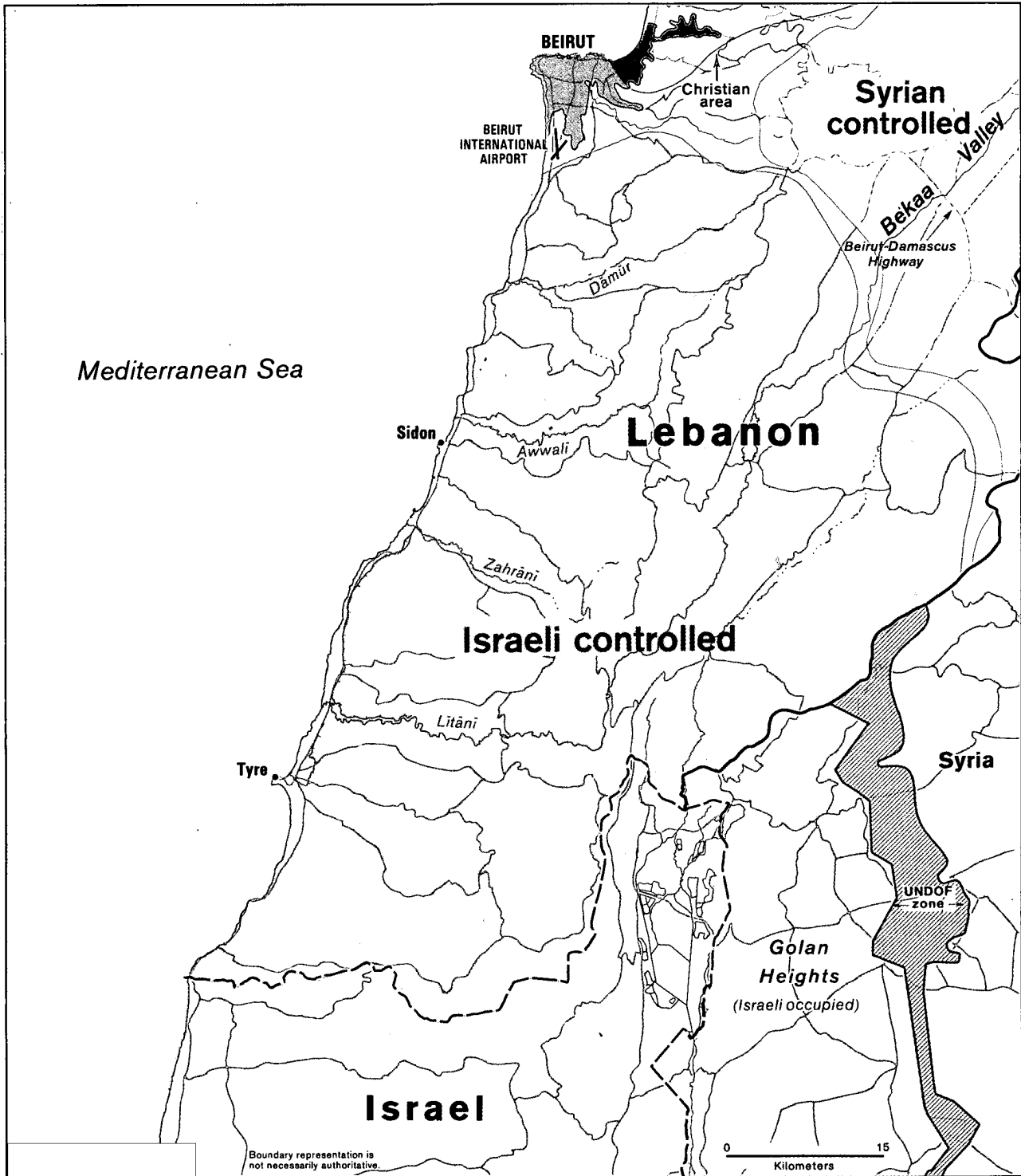
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Top Secret

23 June 1983

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LEBANON: Actions Against Palestinians

The anti-Palestinian campaign continues in southern Lebanon, and violent attacks on Palestinians have now spread to Tyre. During the past week, several explosions occurred in refugee camps there and also in Sidon, causing the deaths of at least three Palestinian civilians. According to UN sources, anti-Palestinian leaflets signed by an extremist Christian militia group have been circulated for the first time in Tyre.

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Comment: The continuing violence and intimidation against Palestinians in the south underscore the hostility among many Lebanese—especially the Christians—to a permanent assimilation of Palestinians into their society. If Israel does not provide additional military protection around the camps, more widespread violence is likely. This would strengthen the PLO's refusal to withdraw its forces unless it were assured of adequate safeguards—possibly by an international force—to protect Palestinian civilians.

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PHILIPPINES-US: Purchase of Helicopters

Manila has signed a \$63 million contract with a US firm to purchase two UH-60A Black Hawk and 17 S-76 Spirit helicopters. The UH-60A is a combat assault helicopter that can also be used for medical evacuation, reconnaissance, and troop resupply. The S-76 is a general purpose troop-transport helicopter. [REDACTED]

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Comment: The helicopter purchase will improve the military's counterinsurgency capabilities. Manila also is taking other steps to increase the military's effectiveness against the Communist insurgents. These include a restructuring of the armed forces aimed at improving command and control and intelligence coordination among field units and the establishment of an elite counterinsurgency force in each service. In addition, the constabulary's role in counterinsurgency operations is being deemphasized because of its poor record in dealing with civilians. [REDACTED]

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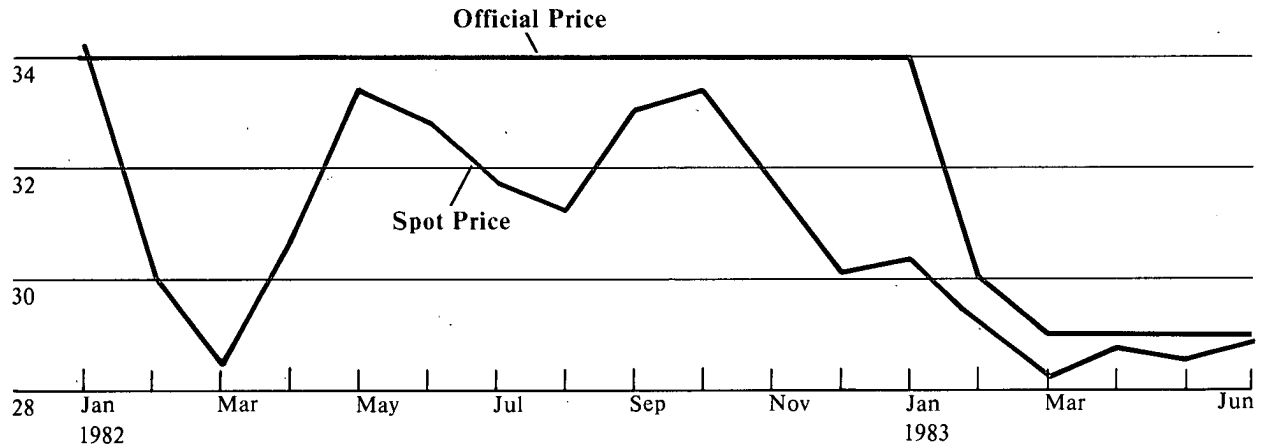
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Arab Light Crude Oil Prices

US \$ per barrel

36

**OPEC Crude Oil Production**

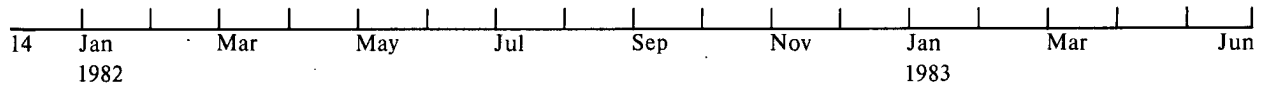
Million b/d

22

20

18

16



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23 June 1983

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Special Analysis

INTERNATIONAL: Outlook for Oil Prices

Recent gains in OPEC oil production and the firming of spot prices indicate a return to more stable conditions in the oil market. With the exception of Nigeria, OPEC members evidently are abiding by the production and pricing guidelines established in March. Even non-OPEC producers appear determined to avoid actions that could provoke a drop in prices. Nevertheless, OPEC will have difficulty in maintaining current prices over the near term without a sustained recovery in Free World oil consumption.

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Spot prices for crude oil are near official prices. Arab Light crude oil prices are now only 15 cents below the official price, while spot prices for Nigerian Light crude oil are running about 30 cents above the official level. Most industry sources expect further price fluctuations in the coming weeks as the market attempts to sort out trends in supply and demand.

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Oil sales in the major developed countries fell by about 5 percent during the first quarter of this year. This decline probably will continue, although at a slower pace, until the economies of these countries begin a sustained recovery.

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Although the OECD economies appear to be pulling out of the recession, the recovery is neither uniform nor rapid. The level of economic growth in the US and Japan is likely to outpace that in Western Europe.

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Inventories Drawn Down

Excess oil inventories and the expectation of an oil price decline have prompted a sizable inventory liquidation in recent months and have helped to keep demand for OPEC oil depressed. Non-Communist oil stocks fell to about 4.6 billion barrels by the end of March—still some 200 million barrels above normal levels.

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During the current quarter, inventories probably will hold steady or decline by roughly 1 million barrels per day, as compared with a normal seasonal increase of about 1.5 million barrels per day. By the fourth quarter, however, inventory depletion will be halted as stocks approach minimum levels and companies believe that the price decline has ended. The restoration of normal inventories later this year could raise demand for OPEC oil by up to 2 million barrels per day.

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